



STATE ADMINISTRATION

Exhibit No. 8

Date 2/20/09

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January 19, 2009

VIA E:MAIL

Ms Roxanne Minnehan, Executive Director
Montana PERA

**Re: Estimated Impact of Market Value Losses
December 2008**

Dear Roxanne:

At your request, we have estimated the fiscal impact of investment losses incurred between the date of the most recent actuarial valuations (June 30, 2008) and the end of December 2008.

At your request, we have provided this DRAFT report prior to completion of our internal peer review. Because this is a draft, Milliman does not make any representation or warranty regarding the contents of the report. Milliman advises any reader not to take any action in reliance on anything contained in the draft report. All parts of this report are subject to revision or correction prior to the release of the final report, and such changes or corrections may be material.

DATA, METHODS AND ASSUMPTIONS

We have developed this analysis based on the data, methods, and assumptions contained in the actuarial valuations of the Systems performed as of June 30, 2008. In preparing the valuation, we relied upon the financial information, membership data, and benefit provisions furnished by the System. Although we did not audit this data, we compared the data for this and the prior valuation and tested for reasonableness. Based on these tests, we believe the data to be sufficiently accurate for the purposes of our calculations. It should be noted that if any data or other information is inaccurate or incomplete, our calculations may need to be revised. Please refer to the valuation report for more details about the data, methods, assumptions, and plan provisions used.

In addition, we collected additional data from MPERA and performed additional computations as described below:

- We were provided with the fair market values for each System as of December 31, 2008 and the cash flows for the period from July 1 through December 31.
- We discounted the fair market values as of December 31 to June 30, 2008 using the actuarial assumed rate of 8.0% per year. This calculation had the effect of

including the investment losses for the six months after the valuation date in the June valuation as if the losses occurred on the last day of June.

- We have not made any adjustment for non-investment actuarial gains or losses that may have emerged since the last valuation date, June 30, 2008, nor any investment-related gains or losses since the end of December. An investment "loss" is a net return (gross returns less investment and administrative expenses) less than the assumed rate of 8% per year.

RESULTS OF THE CALCULATIONS

The attached exhibits show the results of our analysis:

1 Fair Market Value of Assets

Based on the process described in this letter, the fair market values as of December 31, 2008 were discounted to the valuation date. Overall, the fair market values declined from \$4.7 billion to \$3.6 billion on a discounted cash flow basis. The decline the six-month period was \$1.1 billion. *FOR PERS only, **

2 Funded Ratios (Actuarial Value of Assets)

The left column shows the funded ratios from the June 30th valuations on an actuarial value basis and the center column shows the adjusted funded ratios based on the actuarial losses through December. The asset smoothing method recognizes 25% of the loss immediately and defers the remaining loss to be recognized in future valuations.

3 Funded Ratios (Fair Market Value of Assets)

The left column shows the funded ratios from the June 30th valuations on a market value basis and the center column shows the adjusted funded ratios based on the market losses through December. All of the investment losses are recognized immediately in this calculation.

4 Amortization Periods (Actuarial Value of Assets)

The period to amortize the Unfunded Actuarial Liability is shown in this exhibit based on the actuarial value of assets. PERS and SRS show the most deterioration, and do not reflect the sunset of additional contributions under HB 131. The negative amortization period for JRS reflects the time to amortize the actuarial surplus.

5 Amortization Periods (Fair Market Value of Assets)

The period to amortize the Unfunded Actuarial Liability is shown in this exhibit based on the fair market value of assets. The Unfunded Actuarial Liability for PERS, GWPORS, and SRS cannot be amortized on a fair market value basis.

6 30-Year Contribution Rates (Actuarial Value of Assets)

We have calculated the contribution rates necessary to fund the current benefits over a 30-year period. Note that this ignores the unrecognized investment losses.

7 30-Year Contribution Rates (Fair Market Value of Assets)

We have calculated the contribution rates necessary to fund the current benefits over a 30-year period using the Fair Market Value of Assets. Except for some timing differences, this produces rates that would be necessary after the asset smoothing period if the funds earn 8% per year until then. Note that on this basis, only JRS, FURS, and VCFA have sufficient revenue.

We have developed this analysis based on the data, methods, and assumptions described above. These cost estimates are subject to the uncertainties of a regular actuarial valuation; the costs are inexact because they are based on assumptions that are themselves necessarily inexact, even though we consider them reasonable. Thus, the emerging costs will vary from those presented in this letter to the extent actual experience differs from that projected by the actuarial assumptions.

Milliman's work product was prepared exclusively for MPERA for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning MPERA's operations, and uses MPERA's data, which Milliman has not audited. It is not for the use or benefit of any third party for any purpose. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

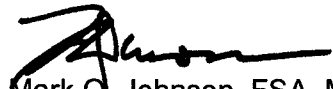
This analysis was prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the applicable Standards of Practice adopted by the Actuarial Standards Board of the American Academy of Actuaries. The undersigned are independent actuaries, Fellows of the Society of Actuaries, and Members of the American Academy of Actuaries, experienced in performing valuations for large public employee retirement systems, and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Ms. Roxanne Minnehan
January 19, 2009
Page 4

Any distribution of this report must be in its entirety, including this cover letter, unless prior written consent is obtained from Milliman.

If you have any questions or need further information, please let me know.

Sincerely,



Mark O. Johnson, FSA, MAAA
Consulting Actuary

cc: Scott Miller
Pat Kahle
Kirk Parson

Attachment

MOJ:j mrs:l:081602

**Montana Public Employees Retirement Administration
Impact of Investment Losses – August through December, 2008**

Exhibit 1

Fair Market Values

<i>(\$millions)</i>	June 30	Adjusted	Change
PERS	\$ 3,853	\$ 2,921	\$ (932)
MPORS	200	153	(47)
GWPORS	73	55	(18)
SRS	189	143	(46)
JRS	59	45	(14)
HPORS	96	73	(23)
FURS	195	149	(46)
VCFA	<u>26</u>	<u>20</u>	<u>(6)</u>
Total	\$ 4,691	\$ 3,559	\$ (1,132)

**Montana Public Employees Retirement Administration
Impact of Investment Losses – August through December, 2008**

Exhibit 2

Funded Ratios – Actuarial Value of Assets

	June 30	Adjusted	Change
PERS	90%	85%	(5)%
MPORS	65%	61%	(4)%
GWPORS	93%	88%	(5)%
SRS	98%	92%	(6)%
JRS	157%	149%	(8)%
HPORS	75%	71%	(4)%
FURS	72%	68%	(4)%
VCFA	84%	79%	(5)%
Total	88%	83%	(5)%

Montana Public Employees Retirement Administration
Impact of Investment Losses – August through December, 2008

Exhibit 3

Funded Ratios – Fair Market Value of Assets

	June 30	Adjusted	Change
PERS	86%	65%	(21)%
MPORS	61%	47%	(14)%
GWPORS	88%	66%	(22)%
SRS	92%	70%	(22)%
JRS	149%	115%	(34)%
HPORS	71%	54%	(17)%
FURS	68%	52%	(16)%
VCFA	79%	61%	(18)%
Total	84%	63%	(21)%

**Montana Public Employees Retirement Administration
Impact of Investment Losses – August through December, 2008**

Exhibit 4

Amortization Periods – Actuarial Value of Assets

<i>(years)</i>	June 30	Adjusted	Change
PERS	24.8	54.3	29.5
MPORS	18.6	21.4	2.8
GWPORS	13.0	22.7	9.7
SRS	16.3	48.2	31.9
JRS	(30.0) ⁽¹⁾	(30.0) ⁽²⁾	0.0
HPORS	17.4	22.0	4.6
FURS	11.3	13.3	2.0
VCFA	5.0	6.8	1.8

⁽¹⁾ The JRS Actuarial Surplus can be amortized over 30 years using a total contribution rate of 1.62% of salaries (the rate to amortize the Actuarial Surplus over 30 years as calculated in the 2008 valuation).

⁽²⁾ The JRS Actuarial Surplus can be amortized over 30 years using a total contribution rate of 5.32% of salaries.

**Montana Public Employees Retirement Administration
Impact of Investment Losses – August through December, 2008**

Exhibit 5

Amortization Periods – Fair Market Value of Assets

<i>(years)</i>	June 30	Adjusted	Change
PERS	50.2	Cannot Amortize	Cannot Amortize
MPORS	21.4	37.0	15.6
GWPORS	22.2	Cannot Amortize	Cannot Amortize
SRS	44.4	Cannot Amortize	Cannot Amortize
JRS	(30.0) ⁽¹⁾	(30.0) ⁽²⁾	0.0
HPORS	21.5	55.0	33.5
FURS	13.3	23.4	10.1
VCFA	6.8	15.6	8.8

(1) The JRS Actuarial Surplus can be amortized over 30 years using a total contribution rate of 4.99% of salaries (the rate to amortize the Actuarial Surplus over 30 years as calculated in the 2008 valuation).

(2) The JRS Actuarial Surplus can be amortized over 30 years using a total contribution rate of 19.76% of salaries.

**Montana Public Employees Retirement Administration
Impact of Investment Losses – August through December, 2008**

Exhibit 6

30-Year Contribution Rates – Actuarial Value of Assets

<i>(% of salaries)</i>	Current Revenue	June 30 Valuation	Adjusted Assets
PERS ⁽¹⁾	13.895%	13.75%	14.98%
MPORS	52.78%	45.88%	47.87%
GWPORS	19.56%	18.41%	19.12%
SRS ⁽²⁾	19.07%	18.66%	19.93%
JRS	32.81%	1.62%	5.32%
HPORS	45.38%	38.52%	41.39%
FURS	57.66%	42.00%	44.26%

⁽¹⁾ PERS: Assumes additional contributions of 0.135% in 2009 and no sunset provision.

⁽²⁾ SRS: Assumes additional contributions of 0.29% in 2009 and no sunset provision.

Note: The contribution rates based on the Adjusted Asset values will increase in the future even if all future experience emerges as assumed as prior investment losses are recognized over the next several years.

20-Year Contribution Rates – Actuarial Value of Assets

<i>(\$000)</i>	Current Revenue	June 30 Valuation	Adjusted Assets
VCFA	\$ 1,562	\$ 801	\$ 919

**Montana Public Employees Retirement Administration
Impact of Investment Losses – August through December, 2008**

Exhibit 7

30-Year Contribution Rates – Fair Market Value of Assets

<i>(% of salaries)</i>	Current Revenue	June 30 Valuation	Adjusted Assets
PERS ⁽¹⁾	13.895%	14.88%	19.80%
MPORS	52.78%	47.85%	55.82%
GWPORS	19.56%	19.08%	21.91%
SRS ⁽²⁾	19.07%	19.84%	24.91%
JRS	32.81%	4.99%	19.76%
HPORS	45.38%	41.08%	52.57%
FURS	57.66%	44.21%	53.25%

⁽¹⁾ PERS: Assumes additional contributions of 0.135% in 2009 and no sunset provision.

⁽²⁾ SRS: Assumes additional contributions of 0.29% in 2009 and no sunset provision.

20-Year Contribution Rates – Fair Market Value of Assets

<i>(\$000)</i>	Current Revenue	June 30 Valuation	Adjusted Assets
VCFA	\$1,562	\$ 917	\$1,387

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION



BRIAN SCHWEITZER
GOVERNOR

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January 30, 2009

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Senator Robert Story
President of the Senate
State Capitol
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Representative Bob Bergren
Speaker of the House
State Capitol
PO Box 200801
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RE: Funded Status of Public Employees' Retirement Board-Administered Systems

Dear Governor Schweitzer, Senator Story and Representative Bergren:

This letter is to advise you of the impact the recent financial market downturn has had on the retirement systems administered by the Public Employees' Retirement Board (Board), and to make suggestions on what should be done in this legislative session to begin the process of ensuring the actuarial soundness of those plans for the future.

Attached to this letter is a January 26, 2009 letter from the Board's actuarial consulting firm Milliman, which details the change the systems have suffered since the June 30, 2008 actuarial valuation. As you can see from that letter, the June 30, 2008 actuarial valuation of the retirement plans showed that on an actuarial value of assets basis, all of the Board-administered retirement plans had amortization periods for their unfunded actuarial liabilities below the required thirty years.

Unfortunately, the last six months of 2008 brought an unprecedented downturn in the financial markets. Exhibit 1 to the Milliman letter indicates that if we were to include the market losses through December 31, 2008, the amortization period for the Public

... something ... only 25% of the Loss is FACTORED IN.

Employees' Retirement System would be 54.3 years based on an actuarial value of assets. In order to reduce that amortization period down to the required 30 years, employer contributions would have to be raised by 0.91%.

The Sheriffs' Retirement System is in a similar situation. As exhibit 4 from the Milliman letter shows, the amortization period for the SRS unfunded actuarial liability based on an actuarial value of assets as of December 31, 2008, is 48.2 years. In order to reduce that amortization period down to the required 30 years, employer contributions would have to be raised by 0.57%.

If we were to look at the market value of assets on December 31, 2008, the situation for those systems becomes even more problematic. On a market value of assets basis, neither system can pay off its actuarial unfunded liabilities based on current contributions over any time frame. The Municipal Police Officers' Retirement System, the Game Wardens' and Peace Officers' Retirement System, and the Highway Patrol Officers' Retirement System all have amortization periods over the required thirty years based on a market value of assets on December 31, 2008.

Unless the financial markets recover quickly and dramatically, the market value of assets analysis will most likely become the actuarial status of the systems named above. However, the Board feels it is prudent to recommend action now based on the actuarial value of assets analyses. Accordingly, the Board recommends that the House State Administration Committee draft a committee bill increasing the employer contribution for PERS by 0.91% and for SRS by 0.57%. That action would start the flow of money into those funds and hopefully curtail significantly larger increases in the future.

The Board has submitted legislation, House Bill 12, to require employer contributions on the wages of retirees who return to work without suspending their retirement benefits and becoming active retirement system members. Doing so would close a loophole that the Board believes will help the actuarial soundness of PERS, SRS and FURS. As of the date of this letter HB 12 has been tabled. However, the Board's staff is currently working with members of the House State Administration Committee on an amendment that will hopefully get HB 12 off the table and passed by the Legislature. We would appreciate your support of HB 12 as our staff attempts to do so.

The Board also requested that Milliman analyze possible changes to benefits and how benefits are calculated for newly hired employees who would be covered by the various systems. The exhibits to Milliman's letter show what the impact of the following possibilities would have on the amortization period: (1) terminating the GABA for new hires; (2) increasing the Highest Average Compensation time frame to five years; and (3) a combination of the two. You can see the results of the various analyses in the exhibits to Milliman's letter.

As you are aware, the Legislature reduced benefits for new hires during the 2007 session. The Board is not in favor of further reducing benefits, and would therefore recommend increasing the employer contribution for PERS and SRS. Nonetheless, the Board felt it

was important to advise the Legislature that the Board had considered alternatives, and to present those alternatives to the assembly.

The Board understands the financial situation faced by the state of Montana. But the problems faced by the retirement systems the state provides, and guarantees, for its public servants will worsen without significant proactive measures taken this legislative session. The Board and its staff look forward to working with you in a combined effort to begin rebuilding the financial security and actuarial soundness of the state of Montana's retirement systems. Please do not hesitate to contact me or Roxanne Minnehan if you have any questions.

Sincerely,



John P. Paull
Board President

C: Representative Dennis Himmelberger
Mr. David Ewer, Budget Director



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February 17, 2009

Mr. David L. Senn
Executive Director
Teachers' Retirement System
State of Montana
1500 Sixth Avenue
Helena, MT 59620-0139

Re: Age 65 Normal Retirement Age for Members Hired on or after July 1, 2009

Dear Dave:

The purpose of this letter is to estimate the fiscal impact of the proposal to change normal retirement age for members hired on or after July 1, 2009 to age 65. Before presenting the results there are two important issues to note.

- **Asset declines after July 1, 2008 are not reflected.**

This letter contains the requested costs showing the impact of the proposal on the most recent actuarial valuation dated July 1, 2008. However, there have been severe asset declines since July 1 which are not included in this letter's results. Although the proposed change in normal retirement age improves the funding of the Teachers' Retirement System, it is not sufficient to offset the losses which have occurred thus far since July 1, 2008. If the proposal outlined in this letter were made, and the market losses experienced since July 1, 2008 are not offset by future gains, then we anticipate that significant further actions would still be required to maintain the long term financial solvency of the Teachers' Retirement System. Those actions could include contribution increases and additional plan design changes to reduce future liabilities.

- **Plan design should be considered carefully.**

The state may wish to spend more time studying how to deliver benefits to future members. Increasing the normal retirement age recognizes that people are living longer and are likely to work to later ages in the future. This is important. However, there are other issues which are also worthy of consideration. Creating a new tier of benefits is an important decision. The decision should not need to be revisited frequently.



This work product was prepared solely for the Montana Teachers' Retirement System and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

Provisions

The changes in provisions studied were:

- Currently members are eligible for an unreduced retirement when they have 25 years of service or have attained age 60 with 5 years of service. Under the proposed changes, members hired on or after July 1, 2009 would be eligible for an unreduced retirement only at their normal retirement age of 65 with 5 years or more of service.
- Eligibility for reduced benefits would not change. Members would still be eligible for reduced benefits at age 50 with 5 years of service.
- The pattern of reductions applied for each month preceding unreduced eligibility would not change. The reduction would still be 0.5% for each of the first 60 months preceding eligibility for an unreduced retirement and 0.3% for every additional month.
However, since the age at which members become eligible for unreduced retirement would be older, the reduction applied at a specific age would be much greater.
- There is no change in benefits for members hired before July 1, 2009.

Cost

As shown on the attached exhibit there is no change to the Actuarial Accrued Liability, the Actuarial Value of Assets, or the Unfunded Actuarial Accrued Liability. That is because benefits are only changed for members hired in the future. The System does not yet have liability for the benefits of employees who have not yet been hired.

However, once these employees are hired with less expensive benefits, a larger portion of the future contributions to the System can be used to pay for the Unfunded Actuarial Accrued Liability. For this reason the amortization period of the Unfunded Actuarial Accrued Liability is projected to decrease from 31.3 years to 23.7 years. As previously stated, this calculation does not recognize any of the market losses which occurred after July 1, 2008. In other words, the calculations assume the actuarial value of assets earns 7.75% in each year after July 1, 2008. X

The amortization period becomes smaller because the normal cost rate for future hires decreases from 10.87% of pay to 8.45% of pay and yet contribution rates are assumed to remain the same. Note that since this only applies to future hires the overall normal cost for the entire population will decrease gradually as the percentage of members earning benefits under the new provisions increases.

Data, Methods and Assumptions

Except where noted elsewhere in this letter, we have developed this analysis based on the data, methods, assumptions and plan provisions contained in the actuarial valuation of the System performed as of July 1, 2008. No gains or losses from asset or liability experience after that date are included. In addition, we made the following assumptions with respect to this proposal:

- For purposes of this letter, we assumed that this is the only statutory amendment being considered. If other provisions are enacted, the actuarial cost impact associated with this amendment may be different.
- We chose probabilities of retirement to reflect the new benefit structure. For ages 50 to 59 we used the current early retirement assumptions. For ages 60 to 64 and 66 to 70 we used the current assumptions for unreduced retirement after the first year of eligibility for full benefits. We increased the assumed probability of retirement at age 65 from 33% to 50% to reflect a larger probability of retirement in the first year of eligibility for an unreduced benefit.
- The normal cost rate for future hires was calculated using the active general member records from the July 1, 2008 valuation. The university member records were not used. This assumes the future population will have the same demographic characteristics as the current general member population.

Certification

These cost estimates are subject to the uncertainties of a regular actuarial valuation; the costs are inexact because they are based on assumptions that are themselves necessarily inexact, even though we consider them reasonable. Thus, the emerging costs may vary from those presented in this letter to the extent actual experience differs from that projected by the actuarial assumptions.

We have not explored any legal issues with respect to the proposed plan changes. We are not attorneys and cannot give legal advice on such issues. We suggest that you review this proposal with counsel.

Milliman's work product was prepared exclusively for TRS for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning TRS operations, and uses TRS data, which Milliman has not audited. It is not for the use or benefit of any third party for any purpose. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.



Mr. David L. Senn
February 17, 2009
Page 4

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this analysis is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the principles prescribed by the Actuarial Standards Board (ASB) and the Code of Professional Conduct and Qualification Standards for Public Statements of Actuarial Opinion of the American Academy of Actuaries.

We further certify that all costs, liabilities, rates of interest, and other factors for the System have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the System and reasonable expectations); and which, in combination, offer our best estimate of anticipated experience affecting the System.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

I, Mark C. Olleman, am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

If you have any questions, please call.

Sincerely,

Mark C. Olleman, FSA, EA, MAAA
Consulting Actuary

MCO/trs

cc: Mr. Craig Glyde



This work product was prepared solely for the Montana Teachers' Retirement System and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

**Teachers' Retirement System
State of Montana**

Age 65 Normal Retirement Age for Members Hired on or after July 1, 2009

All Dollar Values are in Millions

All calculations are based on July 1, 2008 member and asset data

	July 1, 2008 Valuation	Age 65 Normal Retirement for New Members	Change
Present Value of Future Benefits			
Active Members	\$ 2,304.3	\$ 2,304.3	\$ 0.0
Inactive Members and Annuitants	2,386.7	2,386.7	0.0
Total	<u>\$ 4,691.0</u>	<u>\$ 4,691.0</u>	<u>\$ 0.0</u>
Present Value of Future Normal Costs	<u>(580.2)</u>	<u>(580.2)</u>	<u>0.0</u>
Actuarial Accrued Liability	\$ 4,110.8	\$ 4,110.8	\$ 0.0
Value Future University Supplemental Contributions	(157.1)	(157.1)	0.0
Actuarial Value of Assets	<u>(3,159.1)</u>	<u>(3,159.1)</u>	<u>0.0</u>
Unfunded Actuarial Accrued Liability (UAAL)	\$ 794.6	\$ 794.6	\$ 0.0
Funded by TRS Contributions			
Normal Cost Rates			
Members Hired before July 1, 2009	10.87%	10.87%	0.00%
Members Hired on or after July 1, 2009	10.87%	8.45%	-2.42%
Amortization Period of UAAL	<u>31.3 Years</u>	23.7 Years	<u>-7.6 Years</u>



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SB484 deals with Pension Deficit Disorder.

- 1) The Gathering Pension Storm – I'd call it the perfect pension tsunami. In case you missed it, the stock market has fallen from 14,000 to just over 7,000 today. Yesterday it closed at it's lowest point in six years. Today it dropped another 100 points.

In case you missed it, the state's pension plans are heavily invested in stocks. In case you missed it, the biggest crisis facing us today is not the current budget... current budget issues are dwarfed by the pension crisis we will be faced with in the next biennium. [Look at Milliman letter #1]. \$1.1 billion loss in PERS alone. The pension administrators will oppose this bill today, because they have to -- It's their job. But I will tell you... they're scared. If a pension calculation were done as of today... what do you think the length of the unamortized liability would be... 25 years? 30 years? 35 years? 40 years? Well, as of January 30th, it was 54.3 years; [Governor letter]. And it's gotten even worse since then. One pension administrator has speculated that by the time we do the next annual valuation – 7/1/09 (4 months from now) that it's likely that the actuarial liability won't be amortizable at all – infinity. Infinity, there will be no ability to **ever** pay off the actuarial liability, no matter how many years you carry it out.
- 2) This bill arises out of a Legislative Audit Committee hearing where we were given a small glimpse of the crisis we're facing. Under questioning from the committee it became apparent to me that even the pension executives and administrators were worried... very worried. One of the administrators let it be known during testimony that one change which would save significant money would be to adjust the early retirement rules for new hires. I was concerned enough after the hearing that I immediately went down and put in the bill draft request. I believe if I'd attempted to find audit committee members to co-sponsor, there would be significant bi-partisan sponsorship. Given the nearness of our transmittal deadline, I just turned the bill in instead.
- 3) If we pass this minor change, based on the July 1, 2008 balances, it reduces the unfunded amortization from 31.3 to 23.7 years. [see Milliman letter #2]/That's a 25% reduction. Now I'll tell you as a CPA, 25% of infinity is a lot of money... The savings from this one minor change are huge.
- 4) I brought a bill last session to switch to a defined contribution plan for new hires... couldn't even get it out of committee.
- 5) This bill is just a tiny modification. All it says is – **for new hires only, if they retire before age 65, they must use the statutory rules for early retirement rather than get full retirement benefits.**
- 6) Under current law, you can retire at age 48 from PERS with full retirement benefits for the next 50 years! That would be outrageous even if the pension could afford it... but the pensions can't afford it. The pensions are broke, folks.
- 7) We can't change the retirement rules for existing employees... because some judge somewhere said we can't. All we can do is change it for new hires after this bill becomes law.

The unions and pension folks will line up here in a few minutes and all toe the line... they'll oppose this bill and say the sky will fall if the bill passes. They'll argue, "We can't reduce benefits for new hires because then you'll have two workers side by side, with one receiving higher benefits than the other... God forbid, we can't have a two-tiered system!" That's pure malarkey – we already have a two-tiered system. The last time we had a pensions funding crisis just a couple years ago --- we said new hires will only get a 1.5% annual benefit increase while existing employees will get a 3% annual increase. We already have a two-tiered system. Moreover, if we don't start making drastic changes – now --- we could end up with a zero tiered system... It's that serious folks.
- 8) The pension funding crisis we will be faced with 2 years from now will make ANY current or past budget shortfalls pale in comparison. If you don't believe me, I urge you to ask Mr. Senn, and Roxanne Minnehan, and Carroll South, a series of hard questions. When we threw \$125 million at the pensions a couple years back, with little to no reform, I predicted then that we were pouring money down a rathole, and that we'd be back in a crisis in the near future. Not even I envisioned what we are now facing. It's time for legislators on both sides of the aisle to wake up and smell the coffee, it's time to lay down partisan political maneuvering, forget about the politics, and for once in our pathetic political careers make a good policy decision instead of a political decision. If we pass this bill now, it will save us untold millions down the road. Even it will only put a tiny dent in the problem we're faced with, we're faced with a financial hole almost too deep to contemplate. But at some point we at least have to lay down our shovels, and pick up a ladder and start climbing out instead of digging ever deeper.

With that, I'll sit down and listen to the long line of opponents each giving you their standard party line answers why we can't do this. And then in my close I'll tell you why each and every one of them is wrong... dead wrong.